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UNCLAS SECTION 01 OF 03 PRETORIA 005357

SIPDIS

DEPT OF TREASURY WASHDC

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

DEPT FOR AF/S; AF/EPF; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/BARBER/WALKER/JEWELL  
USTR FOR COLEMAN  
LONDON FOR GURNEY; PARIS FOR NEARY

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [SF](#)

SUBJECT: SOUTH AFRICA: FINANCE MINISTER THINKS AHEAD

REF: A. PRETORIA 5007

[B](#). PRETORIA 4879

[C](#). PRETORIA 4809

[1](#)1. (U) Summary. Minister of Finance Trevor Manuel was the guest of honor at the 60th anniversary conference of the Bureau for Economic Research (BER), a well respected South African think tank. Manuel reflected on progress made since the Growth, Employment, and Reconstruction (GEAR) plan was launched. While the economic policies of the 1990's were "distastefully Washingtonian," he said, "in retrospect, they were the right ones to pursue." Today, he thought that fiscal and monetary policy was on a stable platform, foreign exchange management strong, the inflation trajectory under control, and the government was able to focus more on skills development and reversing past discriminatory social policy. Looking to the future, Manuel explained that while public sector debt and investment would account for an increasing share of the economy, public sector leadership would also foster more robust economic growth. He said that now policy makers should start looking qualitatively at redesigning the country's rural and urban landscape. End Summary.

[1](#)2. (U) Introduced as the longest serving Finance Minister in the world, Trevor Manuel was the guest of honor at the 60th anniversary conference of the Bureau for Economic Research (BER) held in Stellenbosch on November 18. He took the opportunity to reflect on how far South Africa had come in the nine years that he had been finance minister, and where the country now needed to go. The tone of the half-day conference was decidedly upbeat, as the four speakers who preceded Manuel acknowledged newly found stability in the economy and strong growth indicators, but decried the ill effects of an overvalued currency on job creation and the export sector. Had South African Reserve Bank (SARB) Governor Tito Mboweni participated as planned, the conference might have focused more on the differences between National Treasury and the SARB when it came to the impact that interest rates had on the exchange rate. Former Monetary Policy Committee member and now SARB Senior Consultant for Research Bernie de Jager replaced Mboweni at the last minute. Other speakers included BER Director Ben Smit and Rand Merchant Bank Chief Economist Rudolph Gouws.

The Road Traveled

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[1](#)3. (U) Manuel began his talk by reflecting on progress made since the Growth, Employment, and Reconstruction (GEAR) plan was launched in 1996. The fiscal challenges that the country faced then included modernizing the tax system and growing the tax base, stabilizing the fiscal budget, deepening the country's debt markets, controlling inflation, and investing in growth and development. He paused to explain that right when the government was making some progress in 2001, it had to respond to a speculative attack on the rand. Today, he mused, "A little less market confidence in the rand might be a welcome relief."

[1](#)4. (U) While the economic policies of the 1990's were "distastefully Washingtonian," he said, "in retrospect, they were the right ones to pursue." Today, the country's fiscal and monetary policies were on a stable platform, foreign exchange management strong, the inflation trajectory under control, and the government is focused on skills development and reversing past discriminatory social policy. He claimed that policy makers in OECD couldn't believe how quickly and successfully South Africa had taken decisions to open its market to trade and investment. "The hold up in WTO was about the reality in South Africa." He stressed, "What we did in the 1990's is what is now so hard for others to accept" in WTO Doha Development Agenda negotiations.

Looking Toward The Future: Growth and Development

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15. (U) Manuel said that there was encouraging evidence of an increase in pace of economic growth and along with it job creation. Alluding to 5.6% annualized GDP growth in Q3, Manuel said that "the economy was really pumping at the moment" and that finally unemployment had begun to fall. Referring to objectives outlined in the Mid Term Budget Policy Review (Ref A), Manuel declared that the government could now turn more of its attention toward accelerating the growth rate of investment in productive activities, improving economic participation of the marginalized population, raising the level of human development (e.g., skills training), improving the effectiveness of government, and entering into regional and international partnerships that supported South African growth and development.

#### The Role of Public Sector Investment

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16. (U) Noting with pleasure that public sector investment had grown 19% in 2003 and another 21% so far in 2004, Manuel reaffirmed that the government intended to increase this further as it pursued major infrastructure projects, including the port, rail, power, telecommunications, and water projects. Much would be funded from the bond markets -- good news for bond traders, said Manuel. While public sector debt would grow under this scenario, so would the economy, and this should mitigate any rise in the debt to GDP ratio. Manuel explained that while public sector debt and investment would account for an increasing share of the economy, public sector leadership should also foster robust economic growth.

#### Redesigning the Urban Landscape

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17. (U) "Still a Cape housing activist at heart," Manuel said that he had started asking questions about in which types of cities did South Africa want its children to live, work, and play. While roads, electricity, water, sewage, and housing had kept pace with a changing society, he confessed that the quality of life in low income and poor areas was bleak -- littered with townships of the apartheid variety and formalized squatter communities that warehoused human beings to labor in nearby first world cities. Manuel believed that South Africa had to redevelop its urban landscape, to reconnect these communities with commercial and industrial areas that surrounded them, or develop growing commercial zones and recreational areas where there were none to bring jobs closer to living areas. Moreover, cities needed to provide affordable and efficient services -- such as power, water, transport, and banking. The country suffered from the distorted spatial planning of the past, and now Manuel felt policy makers could start thinking more qualitatively than quantitatively.

18. (U) Manuel confessed that the situation was not helped by the fact that the country had reorganized itself into 284 wall-to-wall municipalities, sometimes creating a tremendous mismatch between revenue capability and budget needs. This, he said, was the starting point for a new fiscal policy, but he did not elaborate. He only said that the National Treasury was looking at ways to deepen municipal financing going forward.

#### Redesigning the Rural Landscape

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19. (U) Manuel said that South Africans also had to start thinking about their rural landscape, one that had also been distorted and fragmented by apartheid. He reiterated a point that he made in his October budget policy statement, that the first order of business would be to resolve outstanding land restitution claims (i.e., claims by citizens who had their land confiscated by the state after June 19, 1913). This would free up budget and bureaucratic resources to start on land redistribution -- "which had broad implications," he said, "but need not loom large." Manuel said that land restitution and redistribution would continue for a long time, and new land coming into agricultural production might even become an important area for economic growth. In the years ahead, he said that there would be a shift in both public and private financing of rural agriculture. He thought that land redistribution needed to be more self-financing, but that once land had changed hands, the state had a crucial role to provide support through programs such as the Comprehensive Agriculture Support Program. He also suggested that the Land Bank should diversify its client base and extend more credit to rural farmers for things like water management and irrigation, and international trade.

#### Why not Mzansi Life and Health Insurance?

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10. (U) Manuel commented that he was very pleased with the launch of the Mzansi bank accounts to make banking more affordable and more available to the poor. He confessed that

sometimes he did not understand how capitalists worked. "Why did it take so long for the banking community to come up with the idea of bringing new, low-income customers into the market?" he asked, after recounting how he had just heard on the radio that the newly created Mzansi account had already attracted 100,000 new customers to the formal banking sector. The government welcomed private sector contributions that had a social purpose, he said. Now, he challenged, "Why not Mzansi life and health insurance?"

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